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ACTION EUR-25

INFO OCT-01 ADP-00 CIAE-00 PM-09 INR-10 L-03 NEA-10

NSAE-00 PA-03 RSC-01 PRS-01 GAC-01 USIA-12 TRSE-00

MBFR-03 SAJ-01 H-02 NSC-10 SS-15 AID-20 EB-11 OMB-01

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AMEMBASSY VALLETTA

ALL NATO CAPITALS 2837

C O N F I D E N T I A L USNATO 1659

E. O. 11652: GDS79

TAGS: EFIN, MT, NATO

SUBJECT: MALTA SPECIAL PAYMENTS CALCULATION

REF: VALLETTA 0648

BEGIN SUMMARY. OBJECTIONS RAISED BY MINTOFF TO NATO NOTE PASSED BY AMBASSADOR GETZ APPEAR TO PUT IN QUESTION HIS PREVIOUS ACCEPTANCE IN PRINCIPLE OF NATO'S OFFER. IN EFFECT, MINTOFF APPEARS TO BE DEMANDING BOTH SET RATES OF PAYMENT (IT IS NOT CLEAR WHETHER IN STERLING OR NATIONAL CURRENCIES) AND ABSOLUTE ASSURANCE OF FUTURE- YEAR PAYMENTS, BOTH OF WHICH NATO HAS PREVIOUSLY REFUSED TO GIVE. ACTION REQUESTED: INSTRUCTIONS FOR AN EARLY MEETING OF THE FIVE CONTRIBUTING COUNTRIES AS TO WHETHER US AND NATO SHOULD MAINTAIN POSITIONS OR CHANGE THEM TO ACCORD WITH GOM WISHES. END SUMMARY.

1. IN MIZZI'S LETTER, QUOTED REFTEL, GOM COMPLAINS ABOUT IMPOSSIBILITY TO ESTABLISH EXACT AMOUNTS OF SPECIAL PAYMENTS QTE UNDER THE FORMULA NOW PROPOSED UNQTE. WE NOTE, HOWEVER, THAT FORMULA NOW PROPOSED DOES NOT DIFFER ESSENTIALLY FROM THAT PROPOSED IN JANUARY AND ACCEPTED BY GOM. MIZZI ALSO MAKES CONFIDENTIAL

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REFERENCES TO GETZ QTE ORAL ASSURANCE UNQTE ON AMONTS INDICATED IN JANUARY PRESENTATION. AS AMBASSADOR NOTES, THE TEXT OF THE

MEMORANDUM MADE CLEAR THAT SUCH ASSURANCE COULD NOT BE GIVEN. FINALLY, MIZZI STATES THAT QTE SYMPATHETIC CONSIDERATION UNQTE FOR PAYMENTS AFTER 1973 DOES NOT SATISFY GOM'S EXPECTATIONS FOR QTE SIMILAR PAYMENTS UNQTE AS LONG AS THE MALTA- UK AGREEMENT REMAINS IN FORCE.

2. AS AMBASSADOR GETZ TOLD MINTOFF AND MIZZI, THE NATO CONTRIBUTING COUNTRIES' OFFER WAS TO TRANSMIT THEIR BUDGETARY SAVINGS FROM AMOUNTS ORIGINALLY CALCULATED TO BUY THE NECESSARY 14 MILLION POUNDS STERLING DURING CY 1973 TO DISCHARGE THEIR OBLIGATION UNDER THE UK- MALTA AGREEMENT. IT IS THEREFORE NOT POSSIBLE FOR EITHER MALTA OR THE FIVE NATIONS TO KNOW THE EXACT AMOUNTS OF SAVINGS IN THE NATIONAL CURRENCIES UNTIL THE 14 MILLION POUNDS HAS BEEN PURCHASED. SINCE THE LAST OF THOSE PURCHASES WILL NOT HAPPEN UNTIL SHORTLY BEFORE THE 1 ST OCTOBER 1973 PAYMENT DATE, IT IS OBVIOUSLY NOT POSSIBLE TO SPECIFY EXACT AMOUNTS. IN THE CASE OF THE US, FOR INSTANCE, ABOUT 40 PCT OF THE SAVINGS FORECAST LAST JANUARY FOR THE OCTOBER PAYMENT WILL PRESUMABLY BE NULLIFIED BY THE FEBRUARY DEVALUATION OF THE DOLLAR. HENCE, THE OTENTIAL \$870,000 SAVINGS TO BE TRANSFERRED TO MALTA COULD BE REDUCED BY SOME \$85,000. A SIMILAR CASE WOULD HAVE EXISTED FOR ITALY, BUT WE NOTE FROM REFTEL ITALIAN ASSURANCE THAT JANUARY RATES WILL BE MAINTAINED FOR SPECIAL PAYMENT. ON THE OTHER HAND, FRG' S SPECIAL PAYMENT SHOULD BE INCREASED BY ABOUT 3 PCT BECAUSE OF THE REVALUATION OF THE DM. HERE AGAIN, THESE FORECASTS ARE BASED ON CURRENT STATE OF THE MONETARY MARKET.

3. GOM FEAR EXPRESSED IN PARA 9 REFTEL APPEARS TO BE PURELY ARGUMENTATIVE. IN EFFECT, THERE IS NO REASON, ONCE THE FIVE COUNTRIES HAVE AGREED TO PYAMENT TO MALTA OF THEIR BUDGETARY SAVINGS IN NATIONAL CURRENCIES, TO BUY POUNDS STERLING AT HIGH RATES SIMPLY TO PROVIDE THE SMALLEST POSSIBLE SPECIAL PAYMENTS. THE COST TO THE COUNTRIES IS THE SAME IN EITHER CASE. NOR IS THE ARGUMENT IN PARA 7 REFTEL A CONCLUSIVE ONE. NATO HAS AGREED ON LATEST DATES OF PAYMENTS FROM COUNTRIES TO SHAPE ACCOUNTS AND PRESUMABLY EXCHANGE RATES ON THOSE LATEST DATES WOULD BE CONTROLLING EVEN IF PAYMENTS WERE SLIGHTLY LATE.

4. MISSION BELIEVES THAT IT SHOULD SHORTLY BE POSSIBLE TO DETERMINE AMOUNT OF EXACT SPECIAL PAYMENT DUE ON MAY 14 SINCE ALL
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COUNTRIES HAVE MADE THEIR PAYMENTS TO THE SHAPE ACCOUNT FOR THE APRIL 1 PAYMENT DUE UNDER THE BASIC AGREEMENT. IN THE CASE OF THE US, FOR INSTANCE, RATES APPLIED WILL BE THOSE BEFORE THE DEVALUATION AND HENCE TO GOM ADVANTAGE. IT IS NOT YET KNOWN TO MISSION AT WHAT RATE THE DEVALUED ITALIAN LIRA OR THE REVALUED DM WERE EXCHANGED; HOWEVER, WE SHOULD BE ABLE TO DETERMINE THIS IN THE NEAR FUTURE.

5. PROBLEM OF FUTURE- YEAR PAYMENTS IS PROBABLY THE MOST

DIFFICULT. THE US, FOR ONE, HAS BEEN UNWILLING TO COMMIT ITSELF BEYOND CY 1973 BUT HAS PROMISED QTE SYMPATHETIC CONSIDERATION UNQTE AS LONG AS THE UK- MALTA AGREEMENT REMAINS IN FORCE. WITH THE DEVALUATION OF THE DOLLAR, HOWEVER, EVEN IF WE WERE TO AGREE TO EXTEND SPECIAL PAYMENTS BEYOND CY 1973, THE US CONTRIBUTION TO THE SPECIAL PAYMENT WOULD PRESUMABLY BE SOME 40 PCT LESS THAN THE FIGURE PROJECTED LAST JANUARY.

6. REPS OF FIVE CONTRIBUTING COUNTRIES SHOULD MEET SOON TO DECIDE WHETHER TO MAINTAIN POSITIONS REGARDING SPECIAL PAYMENTS OR TO REVISE THEM IN ACCORDANCE WITH GOM WISHES. REQUEST WASHINGTON REVIEW US POSITIONS, AND REAFFIRM OR REVISE OUR GUIDANCE CONCERNING (A) CALCULATION OF CY 1973 CONTRIBUTIONS, AND (B) PROGRAMMING AND PAYMENT OF FUTURE CONTRIBUTIONS.
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